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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
DOCKET CONTROL

COMMISSIONERS  
GARY PIERCE - CHAIRMAN  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF  
UNS GAS, INC. FOR THE ESTABLISHMENT  
OF JUST AND REASONABLE RATES AND  
CHARGES DESIGNED TO REALIZE A  
REASONABLE RATE OF RETURN ON THE  
FAIR VALUE OF THE PROPERTIES OF UNS  
GAS, INC. DEVOTED TO ITS OPERATIONS  
THROUGHOUT THE STATE OF ARIZONA

DOCKET NO. G-04204A-11-0158

NOTICE OF FILING  
SUMMARIES OF TESTIMONY

UNS Gas, Inc., through undersigned counsel, hereby files the summaries of the testimony of David G. Hutchens, Dallas J. Dukes, Craig A. Jones, Nathan C. Shelley, Kentton C. Grant, Dawn Sabers, Gail K. Boswell, Samuel C. Hadaway and Dr. Ronald E. White in the above-captioned docket.

RESPECTFULLY SUBMITTED this 7<sup>th</sup> day of February 2012.

UNS Gas, Inc.

Arizona Corporation Commission

DOCKETED

FEB - 7 2012

DOCKETED BY

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- 1 Original and 13 copies of the foregoing
- 2 filed this 7<sup>th</sup> day of February, 2012, with:
- 3 Docket Control
- 4 Arizona Corporation Commission
- 5 1200 West Washington Street
- 6 Phoenix, Arizona 85007
- 7 Copy of the foregoing hand-delivered/mailed
- 8 this 7<sup>th</sup> day of February, 2012, to:
- 9 Chairman Gary Pierce
- 10 Arizona Corporation Commission
- 11 1200 West Washington Street
- 12 Phoenix, Arizona 85007
- 13 Commissioner Bill Stump
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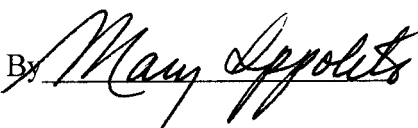
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By 

**Summary of the Testimony  
of David G. Hutchens  
Docket No. G-04204A-11-0158**

I filed Rebuttal and Rejoinder Testimony in this case.

My Rebuttal Testimony summarizes UNS Gas' concerns with several Arizona Corporation Commission ("Commission") Utilities Division ("Staff") and Residential Utility Consumer Office ("RUCO") recommendations in this case. I testify about the Company's concerns specifically with the interplay of the low recommended revenue requirement, the adverse financial impacts of meeting the Commission's new energy efficiency mandates, and the potential impacts to our Baa3 credit rating and the related effect on our ability to attract capital and trade credit on reasonable terms.

My Rebuttal Testimony also provides an overview of UNS Gas' response to the Direct Testimony of Staff and RUCO. In particular:

- I address UNS Gas' concerns with the inadequate revenue requirements proposed by Commission Staff and RUCO, which will result in the Company continuing to under-earn and which may jeopardize our financial integrity;
- I discuss UNS Gas' financial concerns related to trying to comply with the Commission's Gas Energy Efficiency Rules ("EE Rules") without a decoupling mechanism. I also respond specifically to the testimony filed by Staff witness David E. Dismukes, including his skepticism regarding the benefits of decoupling in general and of the Company's proposed Conservation Adjustment Tracker ("CAT");
- I address appropriate rate design for a local distribution gas company and explain why Dr. Dismukes' recommended rate design is unreasonable because it pushes most of the revenue requirement increase onto the residential rate class;
- I testify about UNS Gas' exemplary operations and safety record, including our cost containment efforts and Staff's recent audit finding no compliance issues; and

I respond to the Direct Testimony of Commission Staff witness John A. Rosenkranz concerning gas procurement practices, capacity planning and our NSP Program. Specifically, I oppose his recommendations that the Company submit a comprehensive pipeline capacity plan to the Commission before committing to further extensions of transportation agreements. I explain that UNS Gas always does a comprehensive analysis before making any changes to or extending interstate pipeline service agreements (as exemplified above), and that Mr. Rosenkranz's recommendation will compromise the Company's ability to react quickly to market opportunities in the best interests of its core customers. Thus, submitting a capacity plan in advance would compromise the best interests of the core customers, as well as the Company. I testify that the NSP allows UNS Gas to participate in the competitive bidding process of its

**Summary of the Testimony  
of David G. Hutchens  
Docket No. G-04204A-11-0158**

transportation customers who are seeking to purchase gas supplies for their own use in accordance with UNS Gas Pricing Plan NSP. I explain how the NSP provides two basic benefits: (1) providing transportation customers with a competitive alternative for purchasing their gas requirements in the open market; and (2) lowering the cost of gas for core customers every year since the program was initiated. I testify that the 50/50 sharing margin between the Company and its core customers should be maintained – including demonstrating that core customers are being more than adequately compensated (over \$400,000 in credits for 2010). I also explain that pipeline transportation costs should not be allocated to NSP customers at 100% load factor – because that would drive up costs to those customers to and incent them to seek more favorable terms elsewhere. I also address the remainder of Mr. Rosenkrantz's recommendations from his Direct Testimony.

My Rejoinder Testimony addresses the following:

- For purposes of this case only, while the Company believes its adjustments to rate base and operating expense are supported by the evidence, the Company will not oppose Staff's adjustments based on the overall revenue requirement Staff is recommending together with the rest of Staff's recommendations. This includes Staff's cost of equity and fair value rate of return recommendations;
- The Company will not oppose Staff's proposed Lost Fixed Cost Recovery mechanism ("LFCR") based on its review of Staff's Surrebuttal Testimony and the LFCR plan of administration that accompanied the testimony. The Company reserves the opportunity to propose a full decoupling mechanism (such as the CAT) in a future rate filing. The Company also does not oppose RUCO's proposal for an "opt out" provision as part of the LFCR;
- The Company will not oppose Staff's rate design as set forth in its Surrebuttal Testimony, for purposes of this case. This includes maintaining the low-income discount from the base distribution charge (versus through the purchased gas adjustor);
- The Company's agreement to a comprehensive review of the NSP in the Company's next rate case, and to determine if changes are warranted. UNS Gas understands that the 50/50 sharing margin will be maintained and that the NSP will continue as is pending that review. Also, I provide additional testimony regarding the Company's opposition to submitting a comprehensive pipeline capacity plan; and

I agree that UNS Gas will proposed a PGA surcredit resulting in at least \$2.7 million in refunds and that surcredit shall be proposed for a time period to be discussed with Staff and RUCO. At the conclusion of the hearing in this rate case, the Company

**Summary of the Testimony  
of David G. Hutchens  
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will discuss the amount and timing of the surcredit with Staff and RUCO and will file an application for the surcredit within 30 days of the conclusion of the hearing in this case.

**Summary of the Testimony  
of Dallas J. Dukes  
Docket No. G-04204A-11-0158**

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

In my Direct Testimony, I support the Company's request for a rate increase by sponsoring Schedules A-1, A-2, and A-5, Schedules B-1, B-2, B-3, B-4 and B-5, and the pro forma accounting adjustments on Schedule B: (i) Acquisition Discount; (ii) Griffith Power Plant Facilities ("Griffith Plant"); (iii) Build-Out Plant Write-Down; (iv) Golden Valley Pipeline; and (v) Working Capital.

I also sponsor Schedules C-1 and C-2 and several pro forma accounting adjustments reflected on Schedules C: (vi) Griffith Plant Operations; (vii) Golden Valley Pipeline Operations; (viii) Purchased Gas Cost and Gas Cost Revenue; (ix) Negotiated Sales Program ("NSP") Revenue and Gas Cost; (x) Sales for Resale & Asset Management Agreement; (xi) Rate Case Expense; (xii) Demand Side Management Revenue & Expense; (xiii) Miscellaneous Adjustment; and (xiv) Normalization Adjustments (including (a) Bad Debt Expense; (b) Injuries and Damages; (c) Outside Legal Cost; (d) Common System Allocations; and (e) Miscellaneous Normalization Adjustment).

In my Rebuttal Testimony, I revise the following adjustments that I sponsored in my Direct Testimony.

**Customer Advances:** This adjustment reduces rate base by \$1.2 million to reflect the tax gross-ups related to customer advances and was inadvertently missed in the Company's direct filing.

**Cash Working Capital:** I update cash working capital to properly reflect the other adjustments made to operating expenses in our Rebuttal filing.

**Depreciation Expense:** I reduce the pro forma depreciation expense by \$20,440 to correct an inadvertent error in UNS Gas' direct filing.

**Income Taxes:** Income taxes were adjusted to properly reflect all revenue and expense adjustments made by UNS Gas in its Rebuttal filing.

In my Rejoinder Testimony, I testify that UNS Gas is willing to accept Staff's revised revenue requirement increase of \$2,701,804, along with the underlying Staff adjustments, for purposes of this rate case. However, as part of this acceptance, UNS Gas is reserving the right to urge its position on adjustments in future rate cases, just as Staff has done so on several of its revised adjustments as set forth in Staff's Surrebuttal Testimony. I explain that the Company still believes that its proposed rate base and operating income adjustments (as stated in its Direct and Rebuttal filings) are reasonable and based on sound ratemaking principles and I discuss this in more detail below for some of the adjustments. But for this case only, I testify that the Company is not opposing Staff's adjustments proposed in Staff's Surrebuttal filing.

**Summary of the Testimony  
of Craig A. Jones  
Docket No. G-04204A-11-0158**

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

In my Direct Testimony, I address the Company's proposed fixed revenue decoupling mechanism – the Conservation Adjustment Tracker ("CAT"). I explain that the CAT is designed to: (1) account for losses due to the Commission's Energy Efficiency Standard; (2) help mitigate the financial disincentive – and align the policy in the Gas Energy Efficiency Rules with the Company's interest – to promote energy efficiency; and (3) mitigate the Company's dependence on consumption to achieve recovery of its authorized revenue requirement. I further testify that the CAT would allow the Company to more actively promote energy efficiency programs while still providing the Company a reasonable opportunity to recover its authorized revenue requirement. Also, a decoupling mechanism such as the CAT is designed to be consistent with the "Final ACC Policy Statement Regarding Utility Disincentives to Energy Efficiency and Decouple Rate Structures" issued on December 29, 2010 ("Decoupling Policy Statement").

Second, I propose weather normalization and customer annualization adjustments to reflect test-year billing determinants (customer count and usage) under normal weather and seasonally adjusted year-end customer levels. I explain that Commission-approved methodologies were used for both adjustments.

Third, I describe the Company's class Cost-of-Service Study (based on methodologies approved by the Commission in previous cases).

Fourth, I discuss the Company's rate design proposal. To enhance revenue stability and geographic equity among weather-sensitive customers (including residential customers), the Company is proposing monthly customer charge increases for each customer class (including \$10.00 to \$11.00 for residential customers). I also describe how customer charges for other classes will be increased and in the case of the larger customer classes the increase will be more substantial based on the results of the Cost of Service Study. To minimize the impact of the requested rate increase, the Company's proposal was to eliminate only a portion of the subsidy in this proceeding.

Fifth, I discuss the Company's proposal relating to low-income assistance programs. For this case, the Company identified two options to rectify what is becoming a substantial subsidy of the CARES customers by all other rate payers. I testify regarding the Company's preference to move the non-fuel rates applicable to CARES customer back in synch with other residential customers and make a revenue-neutral reduction to the purchased gas adjustor ("PGA") rates paid by the CARES customers. This method does not reduce the total annual subsidy, but it will change how CARES customers are billed. The Company's alternative was to maintain the current rate design for CARES customers and reduce the subsidy.

Finally, I sponsor the Company's proposed rate tariffs and its rules and regulations.



**Summary of the Testimony  
of Craig A. Jones  
Docket No. G-04204A-11-0158**

In my Rebuttal Testimony, I address the criticisms by Staff and RUCO of the Company's proposed decoupling mechanism and other portion of my Direct Testimony. I testify as to why the CAT does not shift risk from shareholders to ratepayers. I explain that the Gas Energy Efficiency Rules shifts the risk of additional retail sales losses to the utility – absent an offsetting mechanism. I further explain that the decoupling mechanism proposed by the Company: (1) attempts to mitigate the level of mandatory retail sales reductions; (2) prevents customers from over- or under-paying; (3) is only designed to recover the level of revenues approved in the most recent rate case; and (4) that the weather component in the CAT simply helps mitigate over- or under-recoveries resulting from colder or warmer than normal weather. I also testify that Staff's proposals would increase the cost and complexity associated with complying with the Gas Energy Efficiency Rules, and create unnecessary and duplicative regulatory hurdles. In response to RUCO's criticisms – I testify that now is the perfect time to implement a decoupling mechanism, due to the importance of energy efficiency in trying economic times (when the main objective is to reduce customer usage and their bills.) I also address Staff's Cost of Service Study, rate design and CARES proposals – as well as Staff's recommendations regarding proposed changes to the Company's rules and regulations.

In my Rejoinder Testimony, I indicate that the Company will not oppose Staff's revised rate design and CARES recommendations (as set forth in Staff's Surrebuttal), but only in this case. I also testify that, upon review of Staff's Surrebuttal Testimony, including the LFCR and plan of administration ("POA"), the Company will not oppose Staff's LFCR in lieu of its proposed Conservation Adjustment Tracker ("CAT"). Even so, the Company maintains that a full decoupling mechanism appropriately recovers margin lost as the result of energy efficiency and conservation and is consistent with the Commission's Decoupling Policy Statement. The Company reserves its right to propose a full decoupling mechanism (such as the CAT) in the next rate filing. The Company may do so if, for example, the LFCR is not effective in addressing revenue attrition due to energy efficiency and conservation measures – and if the Company does not have a reasonable opportunity to recover its fixed costs and achieve its revenue requirement. Therefore, for purposes of this rate case only, Company will agree to Staff's recommended LFCR mechanism and POA, with minor modifications. The Company also does not oppose RUCO's "opt-out" proposal for residential and CARES customers – which results in a \$1.50 increase to the monthly customer charge for those customers who elect to opt out. The Company also will, in this rate case only, not oppose Staff's recommendations regarding the Company's rules and regulations.

**Summary of the Testimony  
of Nathan C. Shelley  
Docket No. G-04204A-11-0158**

I have filed Direct Testimony in this case. In my testimony, I discuss UNS Gas' operations and its achievements in safety, efficiency and cost savings, system integrity, and customer service. I also describe the Company's capital spending and the benefits of membership in the American Gas Association (AGA) to the Company and its customers. I also provide an overview of the Company's customer assistance programs.

I describe the efforts UNS Gas has undertaken to provide safe and reliable natural gas service to approximately 146,500 customers in northern and southern Arizona. Specifically, UNS Gas has:

- Invested 30.8 million in its natural gas distribution system and other plant assets to provide utility service. We continually model and measure performance of systems and infrastructure to provide service on demand to both existing and new customers. As new replacement or reinforcement work is needed, investment is made to prevent disruption of service to customers.
- Emphasized safety as a core value to both customers and employees. This emphasis has resulted in excellent annual safety reviews conducted by Commission Pipeline Safety personnel, compliance with all applicable OSHA, federal and state regulations, below industry average incident rates, and continued training of a qualified workforce needed to meet customer needs.
- Provided resources and a qualified work force to receive and respond to customer requests for both normal and emergency service, 24 hours a day and 7 days a week, throughout a wide and varied service territory.
- Has provided customers with varied options to receive and pay gas bills or obtain and gather relevant information concerning their accounts and gas usage through the Company's customer assistance programs.
- Will continue to participate with the industry representative (AGA) and other peer companies to promote development and efficient and safe use of natural gas for all UNS Gas customers.

The customer growth rate has slowed significantly and UNS Gas has experienced flat sales levels since the last Test Year. Operating and maintenance expenses have increased despite on-going efforts to maximize efficiency and reduce costs through employee attrition and other measures. To ensure our Company's ability to provide safe and reliable natural gas service to its customers now and into the future, the Company's requested increase is necessary and prudent. It will allow UNS Gas to provide continued safe, reliable service, on demand, and at a reasonable prices for its customers.

**Summary of the Testimony  
of Kentton C. Grant  
Docket No. G-04204A-11-0158**

I have filed Direct and Rebuttal Testimony in this case.

My Direct Testimony provides an overview of the Company's financial condition, and points out that sales growth has not kept pace with the Company's cost of service, and that UNS Gas has been unable to earn its authorized return on equity. I also discuss the importance of maintaining the Company's Baa3 credit rating assigned by Moody's Investors Service (one notch above the speculative-grade rating of Ba1). I further recommend a cost of debt for UNS Gas of 6.74%, as well as a capital structure consisting of 49.18% long-term debt and 50.82% common equity. When combined with the 10.50% cost of equity recommended by Dr. Hadaway, this produces a WACC of 8.65%. In my direct testimony I also recommend a FVROR of 6.81%. This value was derived by applying a real risk-free ROR of 2.0% to the fair value increment of rate base.

Additionally I describe the wholesale credit support required to carry out the Company's natural gas procurement program, and quantify that cost for purposes of rate recovery. Finally, I sponsor several schedules including Schedule A-3 (Summary Capital Structure), Schedule A-4 (Construction Expenditures and Gross Plant in Service), the "D" Schedules (Cost of Capital Information) and the "F" Schedules (Projections and Forecasts) that were filed in support of UNS Gas' rate request.

In my Rebuttal Testimony, I address certain aspects of the Direct Testimony of Mr. David C. Parcell filed on behalf of the Arizona Corporation Commission Staff. I also address a portion of the Direct Testimony of Mr. William A. Rigsby filed on behalf of the Residential Utility Consumers Office.

**Summary of the Testimony  
of Dawn Sabers  
Docket No. G-04204A-11-0158**

I filed Direct and Rebuttal Testimony in this case.

In my Direct Testimony, I address UNS Gas' pro forma adjusted operating expense requested in this proceeding and historical accounting data reflected in the "E" Schedules. Specifically, I am the sponsoring witness for the following pro forma accounting adjustments reflected on Schedule C-2: (i) Payroll Expense; (ii) Employer Payroll Tax Expense; (iii) Pension and Benefits; and (iv) Short-Term Incentive Compensation (all unclassified employees).

Additionally, I am the sponsoring witness for the historical accounting data reflected in UNS Gas' rate case Application in the Schedules: E-1 through E-4; E-6, E-7, and E-9 (Financial Statements and Statistical Schedules).

In my Rebuttal Testimony, I addressed several adjustments that Staff witness Ralph C. Smith recommended in his Direct Testimony, as well as several adjustments that RUCO witness Rodney L. Moore proposed in his Direct Testimony. The adjustments related to incentive compensation, stock-based compensation and SERP. I believe that I provided additional insight and analysis which supported the reasonableness of UNS Gas' proposals on these items, and demonstrated that some of the adjustments that the Staff and RUCO witnesses recommend should not be accepted by the Commission.

**Summary of the Testimony  
of Gail K. Boswell  
Docket No. G-04204A-11-0158**

I have filed Direct and Rebuttal Testimony in this case.

In my Direct Testimony, I address the utility plant and tax data reflected in UNS Gas' rate case Application included on Schedules E-5 and E-8. I also sponsor the depreciation, property tax and the income tax pro forma adjustments in Schedules B and C.

Utility plant is reflected in this case at the purchase price, adjusted for the fixed acquisition discount established by the Commission in Decision No. 66028. Accumulated deferred income taxes have been calculated using full normalization. Depreciation expense is an annualized adjustment using rates developed in the filed depreciation study applied to end of test year plant. Income tax expense was calculated based on adjusted test year income. Property tax expense has been calculated by applying the most recent available property tax rates and the assessment ratio expected to be in effect in 2012, to test year end plant in service. All amounts have been prepared on a basis consistent with prior filings.

In my Rebuttal Testimony, I address the Property Tax Expense testimony of Commission Staff witness Ralph C. Smith. In his testimony, Mr. Smith proposes that the method of calculating property tax expense should be modified from that used in prior cases because UNS Gas has been authorized to collect more property tax expense in rates than was actually paid by UNS Gas in recent years. My testimony explains that this difference is attributable to the fact that property tax filings are made on a consolidated basis, and property taxes collected in rates are calculated on a standalone basis. Calculating property taxes on a standalone basis prevents the cross-subsidization of UNS Gas customers by either Tucson Electric Power Company or UNS Electric.

**Summary of the Testimony  
of Samuel C. Hadaway  
Docket No. G-04204A-11-0158**

I have filed Direct and Rebuttal Testimony in this case.

My Direct Testimony addressed the market required rate of return on equity ("ROE") for UNS Gas. My quantitative analysis and my review of current economic conditions indicated that the cost of equity for UNS Gas is 10.5 percent. My discounted cash flow ("DCF") analysis indicates an ROE range of 10.1 percent to 10.5 percent. My risk premium analysis indicates a range of 10.4 percent to 10.6 percent. Based on these quantitative results and my further review of other economic data that I discussed in my Direct Testimony, I recommended a point ROE estimate of 10.5 percent.

I also addressed the fair market value of UNS Gas assets. My analysis demonstrated that the Company's estimate of fair value rate base ("FVRB") is reasonable. This was based on my analysis of the fair market value ("FMV") of the assets and equity of the comparable companies I use to estimate ROE. I also explained that my analysis was conservative because it did not take into account the higher multiples typically paid by buyers when acquiring a controlling interest in a utility. Acquisition premiums relative to net book value can be quite substantial for gas utilities like UNS Gas, a fact that further underscores the reasonableness of the Company's FVRB estimate.

In my Rebuttal Testimony, I address the ROE recommendations of Arizona Corporation Commission Staff ("Staff") witness David C. Parcell and Residential Utility Consumer Office ("RUCO") witness William A. Rigsby. I demonstrated that the rate of return recommendations by both Staff and RUCO are below the Company's market cost of equity capital. I further explained how the recommendations of Staff and RUCO are very subjective and, for the most part, they do not seem to rely on their quantitative results. I testified that the lack of support for Staff's and RUCO's respective recommendations raises significant questions about the value of their analyses. I also testified that concerns about global economic conditions and events have caused continuing equity market turbulence and have heightened equity market risk aversion – and in that environment the cost of equity cannot be easily determined by simply reviewing the decline in interest rates and routinely applying traditional rate of return estimation models.

I also explained why their criticisms of my methodologies are unfounded. Staff's criticisms are not accurate, because they are principally focused on my use of the GDP growth rate in the DCF model and a mistaken view of my risk premium analysis. Further, the characterization of my GDP growth forecast is not accurate and the contentions about my risk premium analysis are misplaced. RUCO's analysis is inappropriate because it fails to acknowledge that current interest rates are artificially depressed by the government's ongoing expansionary monetary policy; RUCO would have the Commission apply the lowest spot, triple-B interest rate for the last 35 years to set the ongoing ROE for UNS Gas. RUCO also fails to adjust the risk premium for the lower interest rate proposed.

**Summary of the Testimony  
of Ronald E. White  
Docket No. G-04204A-11-0158**

I filed Direct Testimony in this case.

My Direct Testimony sponsors and describes the study conducted by Foster Associates. Depreciation rates currently used by UNS Gas were approved by the Arizona Corporation Commission in Docket No. G-04204A-06-0463 (Decision No. 70011, dated November 27, 2007). The Company is not recommending any changes to those rates.